HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Saskatoon CMA

CANADA MORTGAGE AND HOUSING CORPORATION

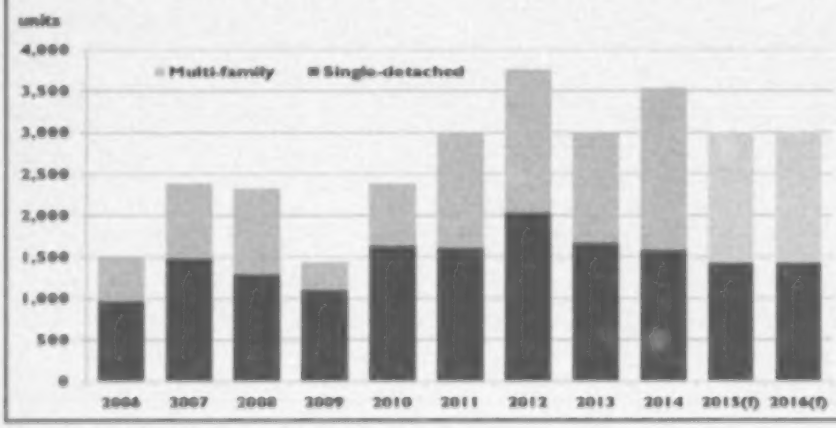
Date Released: Spring 2015

Highlights[1]

- Housing starts will decline through 2016 due to weaker economic conditions and rising inventory
- MLS®[2] sales in Saskatoon will decrease in 2015 and rise slightly in 2016
- Weakening market balance will put downward pressure on the average MLS® price in 2015
- A slower pace of employment growth will moderate net migration to Saskatoon through 2016

Figure 1

Total housing starts in the Saskatoon CMA to ease through 2016



Source: CMHC, CMHC Forecast (f)

[1] The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents forecast ranges and risks where appropriate. The forecasts and historical data included in this document reflect information available as of April 20, 2015.

[2] Multiple Listing Service® (MLS®) is a registered trademark owned by the Canadian Real Estate Association.

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New Home Market: Weaker fundamentals and rising inventory to constrain starts through 2016

Total housing starts in the Saskatoon Census Metropolitan Area (CMA) are forecast to decline 15 per cent from last year's performance to 3,000 units in 2015, before edging lower to 2,975 units in 2016. Weaker economic conditions resulting from lower oil prices will moderate employment growth and net migration, thus slowing housing demand this year and next. Combined with rising levels of new home inventory, these factors will constrain housing starts in Saskatoon through 2016. In the near term, local builders will adjust by reducing production, particularly with respect to multiples where the number of units under construction has risen to a record level and poses the risk of higher inventory in the months ahead.

Builders of single-detached homes in the Saskatoon CMA are expected to initiate 9.6 per cent fewer units in 2015 as they deal with rising inventory levels in the midst of weaker housing demand. At a projected 1,425 units in 2015, single-detached starts will come in slightly above their 10-year average of 1,409, but significantly below their five-year average of 1,701 units. Barring any significant reductions to inventory, a similar level of single-detached starts is forecast for 2016.

There were 175 single-detached units started during the first three months of 2015, down 20 per cent from the corresponding period of 2014. Despite this reduction, the inventory of complete and unabsorbed single-detached units in Saskatoon's ownership market stood at 376 units in March, 28 per cent higher than

Figure 2

Source: CMHC, under construction plus complete and unabsorbed

in March 2014. With completions continuing to outpace absorptions so far this year, local builders face the risk that inventory will move higher in the coming months, especially given that more than 90 per cent of the ownership inventory consists of homes that have been built on spec.

The expected reduction in housing starts this year will result in less pressure on input costs such as materials and labour, measured by Statistics Canada's New Housing Price Index (NHPI). In 2015, growth in Saskatoon's NHPI is forecast to average 1.1 per cent and 1.2 per cent in 2016. Correspondingly, the average absorbed price for a new single-detached home in Saskatoon is forecast to rise modestly to $455,000 in 2015 and to $462,000 in 2016.

After hitting a 32-year high of 1,954 units in 2014, multi-family starts in the Saskatoon CMA, which include semi-detached, row, and apartment units, are forecast to decline 19.4 per cent to 1,575 units in 2015. While there has been an increase in demand in the past year for lower-priced options such as condominium apartments, a slower pace of employment growth and net migration will moderate demand for multi-family dwelling types moving forward. In March the number of multi-family units under construction was among the highest levels since 1978, increasing the risk that inventory will rise over the remainder of this year. This will lead to a reduction in multi-family starts to 1,550 units in 2016.

From January to March 2015, local builders initiated 404 multi-family units, up six per cent from the same period of 2014. With absorptions lagging completions so far this year, the inventory of complete and unabsorbed multi-family units in Saskatoon's ownership market stood at 408 in March 2015, up 58 per cent from a year ago. To mitigate the risk of higher inventories, builders will look to meet demand through the sale of units that are currently under construction or from inventory and reduce the pace of new projects. This will result in a slower pace of multi-family starts over the forecast period.

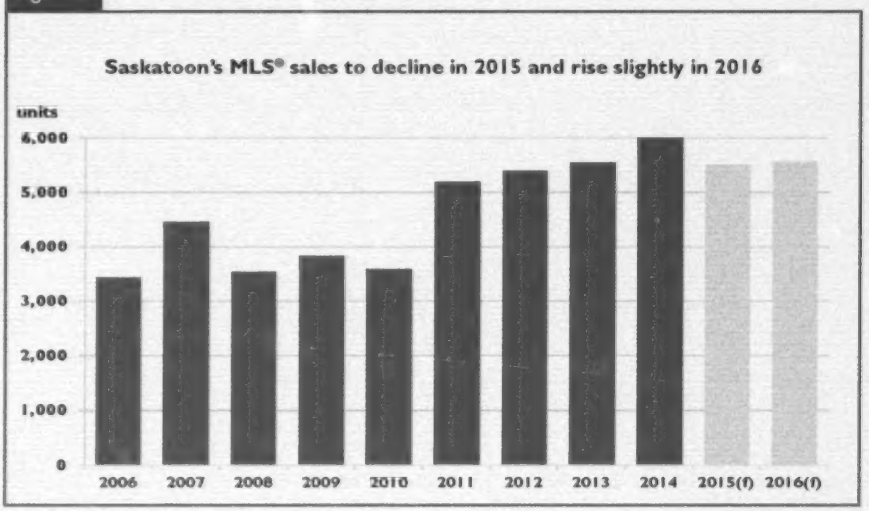
Existing home market: MLS® sales to decline in 2015, edge up in 2016

Saskatoon's MLS® sales are forecast to move lower in 2015, as downside risks posed by lower oil prices impact employment growth and net migration, thus moderating resale demand. This year, MLS® sales are forecast to decline to 5,500 units, down 8.3 per cent from 5,996 in 2014, and remain near this level at 5,560 units in 2016.

To the end of March 2015, sales of existing homes in Saskatoon were down 17.2 per cent to 998 units compared to the first quarter of 2014. This represents the lowest quarterly sales total since 2010. Meanwhile, supply has continued to rise with active listings averaging 2,698 units in the first three months of this year, up 15.4 per cent from the same period one year prior. New listings also rose 13 per cent in the quarter to 3,202 units, pushing the sales-to-new listings ratio into buyer's market territory at 31 per cent. In addition, average days on market rose to 56 days in the first quarter of 2015 from 53 days in the corresponding period of 2014.

The shift to buyer's market conditions in the first quarter of 2015 will put downward pressure on the average resale price. Saskatoon's average MLS® price is forecast to decline to $338,700 in 2015 from $341,061 in 2014. A slight increase to $343,800 is projected for 2016 as market balance improves. During the first three months of this year, the average MLS® price in Saskatoon was up 1.9 per cent, year-over-year, to $344,976. However, the gain in price was mostly due to a compositional shift towards the higher end of the market.

Figure 3

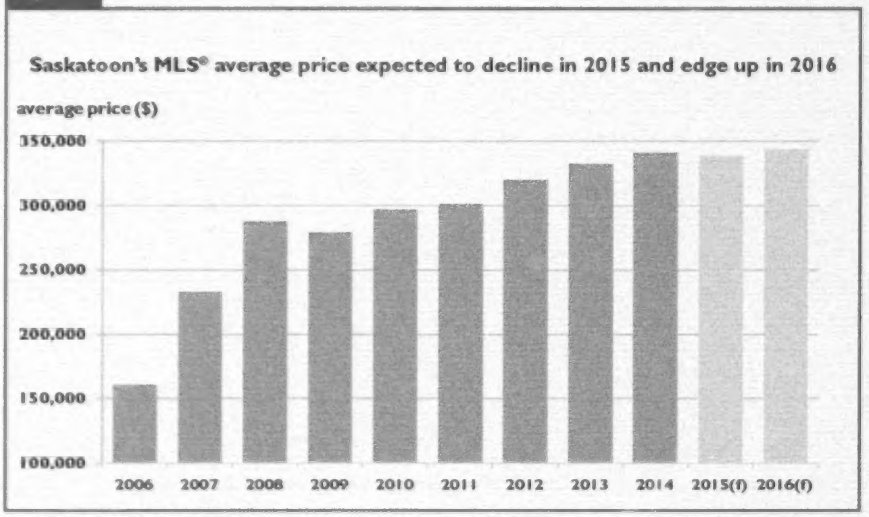


Source: CREA, CMHC Forecast (f)

Rental market: Higher supply of rental apartments to lift vacancies

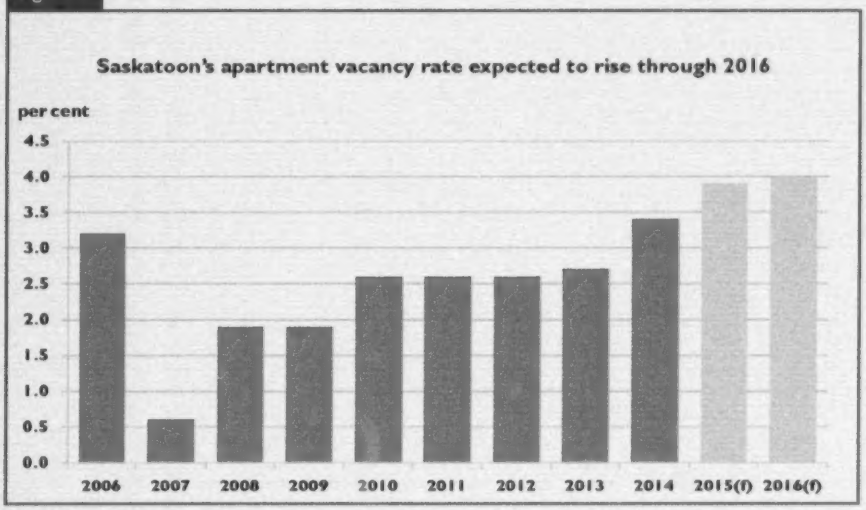
The average apartment vacancy rate in the Saskatoon CMA is forecast to rise to 3.9 per cent in October 2015 from 3.4 per cent in 2014, and edge up slightly to four per cent in 2016. A slower pace of employment growth and lower net migration will ease rental demand slightly this year. On the supply side, the number of new rental apartments will increase due to the completion of purpose-built rental apartments initiated over the past two years. Last year, local builders began construction on 340 apartments

Figure 4



Source: CREA, CMHC Forecast (f)

Figure 5



Source: CMHC, Fall Rental Market Survey, CMHC Forecast (f)

intended for rental tenure, adding to the 185 rental apartments started in 2013. During the first three months of this year, a further 119 apartments intended for the rental market were started. Once completed, these units will augment Saskatoon's rental supply, as will additional condominium apartments in the secondary rental market, putting upward pressure on vacancies in 2015 and 2016.

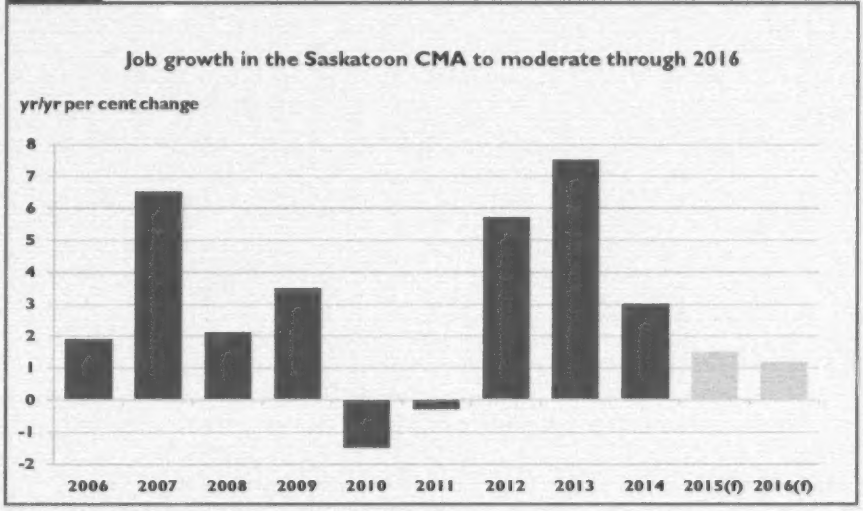
Given the projected increase in apartment vacancies this year and next, landlords will have less incentive to substantially increase monthly rents moving forward. Notwithstanding, the addition of newly completed units to the rental universe at higher price points will help push up the average monthly rent for a two-bedroom apartment in Saskatoon to $1,115 in 2015 and to $1,135 in 2016.

Economic trends: Slower job growth and lower net migration expected through 2016

Following a three per cent gain in 2014, average employment in Saskatoon is forecast to grow 1.5 per cent in 2015 and 1.2 per cent in 2016. This will correspond with an unemployment rate of 4.6 per cent this year and 4.7 per cent next year. Economic uncertainty created by lower oil prices will reduce capital expenditures and dampen businesses hiring this year. That being said, a number of ongoing and future investments in commercial, infrastructure, residential, recreation and institutional projects will continue to benefit Saskatoon's labour market beyond the forecast period.

From January to March 2015, there were 2,100 new jobs created in Saskatoon, compared to a gain of 4,300 in the same period one year prior. The majority of jobs created so far this year have been part-time positions, which kept average weekly earnings relatively flat at $942 in the first quarter of 2015, compared to the previous year. Overall, employment grew the most among individuals in the 15-24 age category, rising 5.3 per cent over the same period one year prior, and adding 1,400 new jobs. Given that this age category typically represents renter households, the gain in job growth will support rental demand in Saskatoon this year.

Figure 6



Source: Statistics Canada, CMHC Forecast (f)

With employment growth expected to slow over the next two years, net migration to the Saskatoon CMA is forecast to moderate further to 7,350 in 2015 and to 7,150 in 2016. The majority of migrants will continue to come from international sources. In 2014, a total 7,608 migrants arrived in the Saskatoon CMA, of which 5,205 or 68 per cent came from outside Canada. Of these international migrants, 63 per cent were aged between 20 and 44 years old, which points to potential support for rental demand and future home ownership in Saskatoon. An additional 2,253 net migrants arrived from other provinces within Canada, while 150 people were non-permanent residents such as foreign temporary workers, foreign students and refugee claimants. Despite the overall reduction, net migration will continue to be a key support of housing demand in Saskatoon through 2016.

Mortgage Rate Outlook: Mortgage rates are expected to remain at or close to current levels over the forecast horizon

Mortgage rates will continue to be supportive of housing demand. Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to remain at or very close to current levels over the forecast horizon.

According to CMHC's base case scenario for 2015, the one-year mortgage rate is expected to be in the 2.30 to 3.50 per cent range, while the five-year rate is forecast to be within the 4.00 to 5.50 per cent range. For 2016, the one-year mortgage rate is expected to be in the 2.40 to 4.00 per cent range, while the five-year rate is forecast to be within the 4.20 to 6.20 per cent range.

Trends at a Glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates will remain low by historical standards and supportive of housing demand.
Employment	A moderation in employment growth will contribute to a reduction in housing demand through 2016.
Income	Modest growth in average weekly earnings is expected this year and will be less supportive of housing demand than in previous years.
Population	Net migration peaked in 2012 and has moved lower since. Despite the moderation expected through 2016, net migration will remain a key support for household formation and housing demand in Saskatoon.
Resale Market	Fewer sales and declining resale prices will temper the move-up market, prompting a slower pace of housing starts in 2015. Higher listings will provide more choice in the resale market and also contribute to a decline in housing starts.
New Home Inventory	Rising ownership inventory in the midst of moderating economic conditions will constrain housing starts through 2016.

Forecast Risks

This outlook is subject to some risks, including:

- A prolonged period of lower oil prices or a further decline in prices from current market levels could result in weaker economic conditions than is forecast. In turn, this would slow employment growth more than is currently projected, leading to a more pronounced reduction in housing demand.
- The outlook assumes new home inventory will be drawn down at a steady pace. Further escalation in new home inventory, combined with a higher than expected increase in resale supply could precipitate a stronger reduction in housing starts than is currently forecast.
- A sharper reduction in net migration to Saskatoon than is forecast could lead to a more pronounced reduction in housing demand over the next two years.

Forecast Summary Saskatoon CMA Spring 2015							
	2012	2013	2014	2015(F)	% chg	2016(F)	% chg
New Home Market							
Starts:							
Single-Detached	2,025	1,658	1,577	1,425	-9.6	1,425	0.0
Multiples	1,728	1,322	1,954	1,575	-19.4	1,550	-1.6
Starts - Total	3,753	2,980	3,531	3,000	-15.0	2,975	-0.8
Average Price ($):							
Single-Detached	408,491	437,880	446,739	455,000	1.8	462,000	1.5
Median Price ($):							
Single-Detached	370,000	409,900	429,502	430,000	0.1	434,300	1.0
New Housing Price Index (% chg.)	2.3	1.5	2.4	1.1	-	1.2	-
Resale Market							
MLS® Sales	5,398	5,543	5,996	5,500	-8.3	5,560	1.1
MLS® New Listings	10,217	11,385	12,885	13,500	4.8	13,800	2.2
MLS® Active Listings	2,197	2,431	2,675	2,900	8.4	3,000	3.4
MLS® Average Price ($)	319,469	332,058	341,061	338,700	-0.7	343,800	1.5
Rental Market							
October Vacancy Rate (%)	2.6	2.7	3.4	3.9	0.5	4.0	0.1
Two-bedroom Average Rent (October) ($)	1,002	1,041	1,091	1,115	2.2	1,135	1.8
Economic Overview							
Mortgage Rate (1 year) (%)	3.17	3.08	3.14	2.30 to 3.50	-	2.40 to 4.00	-
Mortgage Rate (5 year) (%)	5.27	5.24	4.88	4.00 to 5.50	-	4.20 to 6.20	-
Annual Employment Level	152,700	164,200	169,100	171,636	1.5	173,696	1.2
Employment Growth (%)	5.7	7.5	3.0	1.5	-	1.2	-
Unemployment rate (%)	5.5	4.3	4.1	4.6	-	4.7	-
Net Migration [1]	9,400	7,768	7,608	7,350	-3.4	7,150	-2.7

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completion, Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

The forecasts included in this document are based on information available as of April 20, 2015.

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:

The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:

The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:

Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:

Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:

Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:

Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:

Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:

Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which, have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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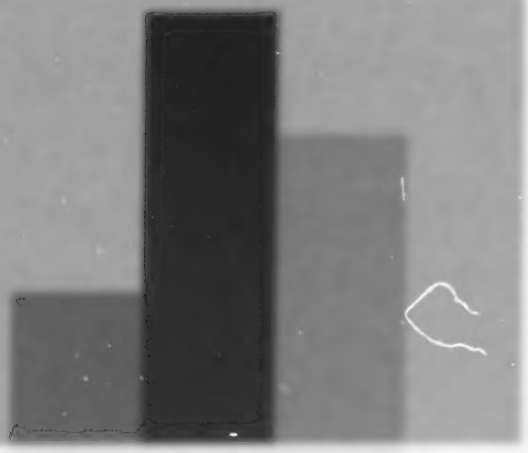

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